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E-IA-BIA-24-86

U.S. DEPARTMENT OF THE INTERIOR

OFFICE OF INSPECTOR GENERAL

AUDIT REPORT

FOLLOWUP ON AUDIT RECOMMENDATIONS
BUREAU OF INDIAN AFFAIRS



**This report may not be disclosed to anyone other than the auditee
except by the Assistant Inspector General for Administration,
Office of Inspector General, U.S. Department of the Interior,
Washington, D.C. 20240.**

SEPTEMBER 1987
DATE



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20240



September 24, 1987

Memorandum

To: Assistant Secretary for Indian Affairs

From: Assistant Inspector General for Audits

Subject: Audit Report, "Followup on Audit Recommendations, Bureau of Indian Affairs" (E-IA-BIA-24-86)

The attached report summarizes the results of our review of audit followup within the Bureau of Indian Affairs. The purpose of the review was to determine whether the Bureau's followup system was in compliance with Office of Management and Budget Circular A-50 and the Departmental Manual and was effective in ensuring audit recommendations were resolved and implemented. This review was conducted as part of our overall review of audit followup procedures in the Department of the Interior. A summary report, which may contain additional recommendations to the bureaus, will be issued to the Secretary at the conclusion of our overall review.

The Bureau's audit followup system generally complied with Office of Management and Budget Circular A-50 and the Departmental Manual; however, improvement was needed to ensure that audit recommendations were fully implemented. Our followup reviews of 19 internal audit reports showed that the Bureau did not fully implement 56 of the 144 recommendations (39 percent) which we reviewed.

We attempted to identify a pattern of nonimplementation by program or functional areas within the Bureau, but we found that nonimplementation covered all phases of the Bureau's operations. We found problems with the Bureau's implementation of our recommendations on functional audits (travel, accounting, procurement, and property) and programmatic audits (tribal and land records, education programs, vocational training, social services, individual Indian monies, housing improvement, and law enforcement).

The following examples illustrate the problems we found:

- The Bureau has not complied with applicable Federal Property Management Regulations concerning travel. Specifically, the Bureau (1) has a backlog of rejected travel advance transactions and has not ensured that employees' travel vouchers are prepared properly or submitted on time; (2) has not established a system to adequately control travel advances; and (3) has not adequately monitored the results of audits of travel vouchers selected for review under its statistical sampling plan.
- The Minneapolis Area Office did not comply with applicable Federal and Departmental procurement regulations. Specifically, we found that (1) the Area Office did not deobligate \$403,800 of improperly obligated

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funds, (2) contracts were not closed out and records were not current; and (3) sole source and noncompetitive procurements were made when competition was available.

- Post-secondary education programs continued to have problems with (1) accurately reporting program accomplishments, (2) questionable payments to participants, and (3) a lack of program directives or noncompliance with available directives.
- The Bureau has not established effective accounting controls over tribal trust funds and accurately reported trust fund status to tribes. We found that the Bureau has not reconciled the various accounting systems involved in tribal trust fund accounting.

A draft version of this report was issued to you for written comments. However, we did not receive a response to the draft, and all 49 recommendations are considered unresolved.

In accordance with 360 Departmental Manual 5.3, we are requesting your written response to this report by November 30, 1987. The legislation creating the Office of Inspector General requires semiannual reporting to Congress on all reports issued, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been implemented.

for Marie E. Prew
Harold Bloom

cc: Audit Liaison Officer - Indian Affairs
Audit Liaison Officer - Bureau of Indian Affairs

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INTRODUCTION

BACKGROUND

Office of Management and Budget Circular A-50 requires agency heads to designate a top management official to oversee audit followup, including resolution and corrective action. It further requires that the agency heads ensure that management officials throughout the agency understand the value of the audit process and respond to audit recommendations.

The Assistant Secretary for Policy, Budget and Administration is designated as the audit followup official for the Department of the Interior. The Departmental Manual (361 DM 1.8B) provides that program assistant secretaries and heads of bureaus and offices have audit followup responsibilities, which include designating an audit liaison officer to act as a point of contact for the organization for all audit matters.

The Bureau of Indian Affairs has one official assigned on a full-time basis as the audit followup official. This official is responsible for tracking the status of all internal and external audit reports to the Bureau through resolution and implementation. The audit followup official reports directly to the Chief, Branch of Systems Control.

During fiscal years 1983 through 1985, the Office of Inspector General issued 112 internal audit reports to the Bureau. Additionally, 103 external audit reports were issued during this period with cost exceptions of \$6.2 million. The external audit reports included the results of contract and grant audits conducted by independent public accountants and government audit agencies.

OBJECTIVES AND SCOPE

The Office of Inspector General reviewed audit followup within the Bureau. The objectives of the review were to determine whether the Bureau's audit followup system was in compliance with Office of Management and Budget Circular A-50 and the Departmental Manual and was effective in ensuring that audit recommendations were resolved and implemented. This review was conducted as part of our overall review of audit followup procedures in the Department of the Interior. A summary report, which may contain additional recommendations to the bureaus, will be issued to the Secretary at the conclusion of our overall review.

Our audit included followup reviews of major recommendations made in 19 Office of Inspector General internal audit reports issued to the Bureau (see Appendix 1). Followup reviews of the external audit reports were not performed because the Office of Inspector General conducted a separate audit of the Bureau's debt collection activities. That audit included a review of the timeliness of actions taken by the Bureau to resolve and collect cost exceptions identified by audit. It found that the Bureau has not taken aggressive or timely action to collect audit related debts that totaled about \$5.2 million.

Our review was made, as applicable, in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States. Accordingly, it included such tests of records and other auditing procedures as were considered necessary under the circumstances. We did not perform a detailed analysis of project or administrative files, and we did not evaluate the Bureau's system of internal controls.

This report discusses the results of each followup review separately and presents, for each followup review, the general findings of the prior audit report, the Bureau's response to the recommendations, the results of our followup review, and additional recommendations. The discussion in the report is limited to those reports in which corrective actions were not fully implemented. Appendices 2 and 3 detail the implementation status of each recommendation included in the audit.

RESULTS OF FOLLOWUP REVIEWS

The Bureau's audit followup system generally complied with Office of Management and Budget Circular A-50 and the Departmental Manual; however, improvement was needed to ensure that audit recommendations were fully implemented. Our followup reviews of 19 internal audit reports showed that the Bureau did not fully implement 56 of the 144 recommendations (39 percent) reviewed.

<u>Report Number</u>	<u>Recommendations Reviewed</u>	<u>Fully Implemented</u>	<u>Not Fully Implemented</u>
W-IA-BIA-16-82A	3	-	3
C-IA-BIA-10-82	8	-	8
W-IA-BIA-42-84	3	-	3
W-IA-BIA-38-84	11	2	9
C-IA-BIA-24-83	4	1	3
C-IA-BIA-31-84	7	1	6
C-IA-BIA-11-82	12	7	5
C-IA-BIA-35-83	7	3	4
C-IA-BIA-22-84	13	7	6
C-IA-BIA-36-84	11	5	6
C-IA-BIA-19-83	4	3	1
C-IA-BIA-09-82b	11	10	1
W-IA-BIA-28-83	2	1	1
C-IA-BIA-22-82	3	3	-
C-IA-BIA-09-82	11	11	-
C-IA-BIA-48-84(a)	14	14	-
C-IA-BIA-36-84(a)	2	2	-
W-IA-BIA-05-82	5	5	-
W-IA-BIA-24-84	<u>13</u>	<u>13</u>	<u>-</u>
TOTAL	<u>144</u>	<u>88</u>	<u>56</u>

This review attempted to identify a pattern of nonimplementation by program or functional areas within the Bureau, but nonimplementation covered all phases of the Bureau's operations. Problems were evident with the Bureau's implementation of recommendations on functional audits (travel, accounting, procurement, and property) and programmatic audits (tribal land records, education programs, vocational training, social services, Individual Indian monies, housing improvement, and law enforcement). The results are summarized in the report with additional details in Appendices 2 and 3.

5. ACCOUNTING CONTROLS OVER TRIBAL TRUST FUNDS (C-IA-BIA-24-83), SEPTEMBER 29, 1983

The objectives of this audit were to determine whether the Bureau had established effective accounting controls over tribal trust funds and had accurately reported trust fund status to tribes. The report contained six recommendations.

Bureau of Indian Affairs Response

The Bureau agreed in principle with the recommendations but did not specify how they would be implemented. On October 2, 1984, the report was referred to the Assistant Secretary for Policy, Budget and Administration for resolution. As of June 1986, the Assistant Secretary reported that five of the six recommendations had been resolved on the basis of a subsequent response by the Bureau. The Bureau established September 1988 as the target date to complete corrective action for resolving the remaining recommendation.

Office of Inspector General Followup

Four of the five resolved recommendations were reviewed, but only one has been fully implemented, that is, the Bureau has performed a study on the feasibility of contracting out all or a portion of its tribal trust fund activity.

Accounting System (Recommendations 1/2a, 1/2b, and 1/2c). The prior audit reported that as a rule, the Bureau did not reconcile the five systems it uses to account for tribal trust funds and that even when it did identify differences, it had no sound processes for resolving them. Also, trust fund financial activities were handled through two Treasury accounting stations, which contributed to the Bureau's out-of-balance condition with Treasury and caused inaccurate reports of trust fund account balances. The Bureau agreed with our recommendation to develop a single system and to implement a monthly reconciliation process. The system would be developed either in-house or under contract.

Our followup review showed that the Bureau had neither issued a contract nor determined in-house requirements for a single system. While a request for proposals was issued in February 1986, a Bureau official informed us in September 1986 that the contracting action and the consolidation of the two Treasury stations had been delayed pending the outcome of a Senate Committee's hearings on the proposed procurement.

We also found that the Bureau had not implemented the reconciliation system Bureauwide. Although two area offices utilize the system, they do not submit the results to the Branch of Indian Trust Fund Accounting for oversight. Since February 1985, only one agency office provided the Branch of Indian Trust Fund Accounting the results from the new reconciliation system (for August 1985), and even then the Branch took no action on the noted discrepancies.

Recommendations

We recommend that the Assistant Secretary for Indian Affairs:

1. Provide a revised action plan for establishing a single, fully integrated accounting system.
2. Direct that the monthly reconciliation process be implemented Bureauwide, including submission of the results of the reconciliations to the Branch of Indian Trust Fund Accounting which would act on any noted discrepancies.
3. Establish a single Treasury accounting station to handle all Bureau trust fund activity.

9. REVIEW OF INDIVIDUAL INDIAN MONEY ACCOUNTS ADMINISTERED BY THE BUREAU OF INDIAN AFFAIRS ANADARKO AGENCY (C-IA-BIA-22-84), MARCH 6, 1985

The objectives of this review were to determine if (1) accounts were established and maintained in accordance with applicable Federal regulations and Bureau guidelines, (2) Agency operating practices were adequate to provide for proper record keeping and to prevent misuse of Indian monies, and (3) individuals and tribal organizations were improperly using the accounts in lieu of commercial banking services. The report contained 29 recommendations.

Bureau of Indian Affairs Response

The Bureau concurred with all 29 recommendations. On July 11, 1985, the report was referred to the Assistant Secretary for Policy, Budget and Administration for tracking the implementation of agreed-upon corrective actions for 3 of the 29 recommendations. All recommendations have been report as implemented.

Office of Inspector General Followup

Thirteen of the twenty-nine recommendations were selected for followup. Of the thirteen recommendations, six have not been implemented.

Supervised Minors' Accounts (Recommendations 1/1 and 1/2). The prior report noted that disbursements of a questionable nature and not in the best interests of the minors had been made from minors' accounts. We recommended that the Anadarko Agency adhere strictly to the requirements of the Bureau of Indian Affairs Manual when disbursing minors' funds (Recommendation 1/1) and that the Agency finalize and issue its draft policy letter on disbursing minors' funds (Recommendation 1/2). The Bureau concurred with both recommendations.

Our followup showed that the Agency is reviewing all requests for disbursement from these types of accounts and rejecting those that are inappropriate. However, some of those decisions are being overruled by Area Office managers. For example, in December 1984, the Agency denied a request for disbursement of funds from a minor's (Kiowa Tribe) account to buy Christmas gifts for her brother and others. The Agency cited the Manual (66 BIAM 6.4.2) and the audit report as the basis for the denial. The minor's guardian (an aunt) appealed to the Anadarko Area Office, which directed the Agency to make the disbursement.

On January 23, 1985, the Agency requested that the Solicitor provide an opinion on its trust responsibilities toward minors. The Solicitor's response supported the Agency stating, "Clearly a plan which envisioned gifts to third parties would not be authorized under the regulations." Notwithstanding the Solicitor's opinion, the Anadarko Area Office issued policy guidelines (May 10, 1985) that state, "Providing that adequate funds are available, reasonable disbursements for special occasions such as birthdays and Christmas are considered to be appropriate expenditures."

Supervised Adults' Accounts (Recommendations 2/1 and 2/2). The prior report noted that 20 percent of the sampled accounts did not contain information to indicate why the accounts were being supervised. We recommended that the Anadarko Agency review all supervised accounts at least once a year (1) to determine if the degree of supervision and the disbursements were in the best interests of the individuals (Recommendation 2/1) and (2) to ensure that the files indicate the reasons for continued supervision and include documentation showing that the necessary financial planning had been done to meet the needs of supervised account holders (Recommendation 2/2). The Bureau concurred with both recommendations.

Our followup review showed that the Anadarko Agency requested its social services contractors to perform annual case reviews and to verify that all the proper documentation was in account holders' case files, including the reasons for continued supervision. However, no contract monitoring has been performed, and no financial plans have been submitted by the contractors. To remedy the problem, the Agency requested the Area Office to include specific provisions in the social services contracts for making reviews, documenting the need for supervision, and preparing financial plans. The Area Office has not responded to the Agency's request.

Voluntary Deposits (Recommendation 3/1). We noted that the Agency was maintaining an inordinate number of tribal accounts (75 accounts with a combined balance of \$670,689) that were determined to be voluntary in nature. We recommended that the Agency eliminate all unnecessary tribal accounts. The Bureau responded that all account holders, both tribal and individual, whose accounts have been determined to be voluntary in nature would be sent a letter apprising them of the reasons for closing their accounts.

Our followup showed that none of the tribal accounts had been eliminated. More than half remain in the system with zero balances, even though the Agency claims it will not accept deposits for these accounts. As of May 1986, there were 32 tribal accounts, with balances totaling \$724,609.

The files contained no documentation supporting the need for the Agency to maintain these accounts, and at least 16 accounts, with a combined balance of \$444,108, were voluntary. These dormant and voluntary accounts continue to generate statements, to be reflected in statistical compilations, to require continual monitoring to ensure funds are not deposited to them, and, in general, to require the Bureau and the Agency to waste time and money in keeping the accounts open.

Internal Controls (Recommendation 10/1). We recommended that the Agency, in accordance with Bureau guidelines, perform monthly inventories of its blank Treasury check stock and use signed receipts for check stock transfers. The Bureau responded that it was complying with these recommendations.

Our followup showed that the problem with control over the Agency's blank check inventory has not been corrected. Although the Agency counts the checks it has on hand, it does not reconcile them with any control record to